

Message Text

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ORIGIN STR-07

INFO OCT-01 EUR-12 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 /126 R

DRAFTED BY STR:AHUGHES:SMS
APPROVED BY STR:WBKELLY, JR.
TREAS:ED BARBER
INTER:HOWARD ANDERSEN
LABOR:GLORIA PRATT
STATE:WILLIAM TAGLIANI
AGR:ROBERT HARPER
COMMERCE:WILLIAM KRIST

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R 282351Z JUL 78
FM SECSTATE WASHDC
TO USMISSION GENEVA
AMEMBASSY BRUSSELS

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USMTN AND USEC

E.O. 11652: N/A

TAGS: ETRD, MTN

SUBJECT: GREATER-THAN-FORMULA U.S. TARIFF OFFERS AND THE
EC

1. AS PART OF OUR PREPARATIONS FOR THE FINAL PHASE OF THE
NEGOTIATIONS, WE ARE REASSESSING OUR POSTURE VIS-A-VIS
THE EC ON THOSE INDUSTRIAL U.S. TARIFF OFFERS FOR GREATER-
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THAN-FORMULA (GTF) REDUCTIONS.

2. AS MTN DEL IS WELL AWARE, THE EC HAS STEADFASTLY RE-
FUSED TO GRANT US ANY NEGOTIATING CREDIT FOR THAT PORTION
OF OUR OFFERS THAT EXCEEDS THE SWISS FORMULA (14X) WITH
THE EXCEPTION OF AIRCRAFT.

3. THE IMPLICATION OF THE EC POSITION IS EXTREMELY DETRIMENTAL TO OUR NEGOTIATING INTERESTS. IT PUTS THE EC IN A POSITION TO ARGUE THAT THE VALUE OF OUR OFFER TO THEM IS ONLY A 31 PERCENT DEPTH OF CUT INSTEAD OF THE 50 PERCENT DEPTH OF CUT THAT WE FEEL WE ARE MAKING OF BENEFIT TO THEM. (THESE DATA DO NOT TAKE INTO ACCOUNT THE JUNE REVISIONS IN THE OFFER.) TO "BALANCE" THE OFFERS, THEY HAVE MADE WITHDRAWALS OF OFFERS ON PRODUCTS OF CRITICAL IMPORTANCE TO US: TRUCKS, AUTOS, PLASTICS, SEMICONDUCTORS, PAPER, ETC.

4. WE ARE CONCERNED WITH THE EC POSITION ON A NUMBER OF COUNTS. FIRST, IF WE FELT COMPELLED TO WITHDRAW THOSE OFFERS THAT THEY WERE UNWILLING TO PAY FOR, IT WOULD SHARPLY REDUCE THE SCOPE OF THE TARIFF NEGOTIATIONS. PRELIMINARY COMPUTER ANALYSIS IN GENEVA DURING THE WEEK OF JULY 10 INDICATED THAT REDUCING GTF OFFERS TO FORMULA OFFERS ON PRODUCTS FOR WHICH THE EC SUPPLIED AT LEAST 40 PERCENT OF U.S. IMPORTS WOULD REDUCE THE U.S. DEPTH OF CUT OVERALL BY 7.8 PERCENTAGE POINTS; TO THE EC BY 15.8 PERCENTAGE POINTS; TO CANADA BY 12.6 PERCENTAGE POINTS; AND TO JAPAN BY 9.6 PERCENTAGE POINTS. REDUCTIONS IN OUR OFFERS OF THESE MAGNITUDES, COUPLED WITH OTHER HIGH PRIORITY WITHDRAWALS, SUCH AS TEXTILES AND STEEL, WOULD RISK BRINGING THE TARIFF PACKAGE IN THE MTN TO UNACCEPTABLY LOW LEVELS.

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5. ASIDE FROM THE SIZE OF THE POTENTIAL PACKAGE, WE ARE ALSO VERY CONCERNED ABOUT THE QUALITY OF THE EC OFFER AS OPPOSED TO THE QUALITY OF OUR OFFER TO THEM. THEIR WITHDRAWAL LIST HAS HIT OUR MOST IMPORTANT INDUSTRIAL INTERESTS IN THE EC MARKET. WHILE WE ARE STILL ASSESSING THE RELATIVE BALANCE, WE FEEL THAT OUR OFFER, EVEN WITHOUT THE GTF OFFERS, IS QUALITATIVELY MORE ATTRACTIVE THAN THEIR OFFER TO US.

6. IF WE DECIDE TO WITHDRAW OFFERS THE EC WILL NOT PAY FOR, WE WILL NEED TO DECIDE HOW TO DO SO. ANY TECHNIQUE WE ADOPT WILL INVOLVE BALANCING OFF DAMAGE TO THIRD-COUNTRY INTERESTS IN OUR OFFER AGAINST A FREE RIDE FOR THE COMMUNITY. FOR EXAMPLE, THE ANALYSIS OF THE "40 PERCENT LIST" REFERRED TO IN PARA 4 ABOVE, REVEALED THAT, IF WE WERE TO REDUCE OFFERS ON THE ITEMS ON THE LIST TO FORMULA CUTS, THE DEPTH OF CUT TO THE EC WOULD DECLINE 15.8 PERCENTAGE POINTS COMPARED TO A LOSS OF APPROXIMATELY 20 PERCENTAGE POINTS IF ALL GTF OFFERS ON PRODUCTS SUPPLIED BY THE EC WERE REDUCED TO FORMULA REDUCTIONS. THUS, UNLESS OTHER OFFERS WERE ADJUSTED TO

COMPENSATE FOR THIS DISCREPANCY, THE EC WOULD RECEIVE ABOUT 4 PERCENTAGE POINTS OF CONCESSIONS IT DID NOT PAY FOR. A MORE SELECTIVE APPROACH THAN THE "40 PERCENT LIST" WOULD HAVE TO BE DEVELOPED IF WE WERE TO REDUCE THE EC FREE RIDE.

7. IN VIEW OF ALL THESE CONCERNS, WE FEEL OUR NEXT STEPS SHOULD BE VERY CAREFULLY CONSIDERED IN THE LIGHT OF OUR OVERALL TARIFF STRATEGY.

8. BECAUSE THERE WAS NO AGREEMENT ON THE TARIFF-CUTTING FORMULA IN GROUP TARIFF, WE HAVE AS MUCH RIGHT TO CLAIM CREDIT FOR OUR GTF OFFERS AS THE EC HAS IN REFUSING TO GRANT CREDIT. IS THERE A COMPROMISE BETWEEN THE TWO LIMITED OFFICIAL USE

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POSITIONS THAT MIGHT BE POSSIBLE, I.E. THEY PAY FOR HALF OF OURS AND WE ABANDON THE OTHER HALF? SHOULD WE LAUNCH A MAJOR, HIGH LEVEL CAMPAIGN TO ATTEMPT TO PRESSURE THEM TOWARD A COMPROMISE ACCEPTABLE TO US? SUCH A CAMPAIGN COULD INCLUDE ELEVATING THIS ISSUE TO MUCH HIGHER PRIORITY IN PUBLIC AND PRIVATE COMMENTS BY U.S. OFFICIALS; A CONCERTED EFFORT TO MAKE THIRD COUNTRIES AWARE OF THE DETRIMENTAL EFFECT U.S. GTF WITHDRAWALS WOULD HAVE ON THEIR INTERESTS; AND ANOTHER ATTEMPT AT A POLITICAL LEVEL TO CONVINCE THE EC AND INDIVIDUAL MEMBER STATES OF THE BENEFITS TO THEM OF THE U.S. GTF OFFERS AND THE IMPORTANCE WE PLACE ON THIS ISSUE. IF THERE IS NO COMPROMISE, SHOULD WE ALSO CONSIDER SELECTIVELY WITHDRAWING SOME FORMULA OR LESS-THAN-FORMULA OFFERS ON PRODUCTS OF PRINCIPAL INTEREST TO THE EC?

9. WE ARE CURRENTLY CONSIDERING THIS PROBLEM IN PREPARATION FOR THE POLICY REVIEW IN EARLY SEPTEMBER AND WOULD WELCOME YOUR VIEWS AND ADVICE ON THE ISSUES WE HAVE RAISED. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TARIFFS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE191833
Document Source: CORE
Document Unique ID: 00
Drafter: AHUGHES:SMS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780311-0746
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978077/aaaaafxw.tel
Line Count: 156
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 584d0477-c288-dd11-92da-001cc4696bcc
Office: ORIGIN STR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2038231
Secure: OPEN
Status: NATIVE
Subject: GREATER-THAN-FORMULA U.S. TARIFF OFFERS AND THE EC
TAGS: ETRD, MTN
To: GENEVA BRUSSELS
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/584d0477-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014